

VZCZCXRO0235
PP RUEHDE
DE RUEHYN #0916 0930935
ZNR UUUUU ZZH
P 030935Z APR 06
FM AMEMBASSY SANAA
TO RUEHC/SECSTATE WASHDC PRIORITY 3441
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL PRIORITY
RUCPDO/USDOC WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUEKDIA/DIA WASHINGTON DC PRIORITY
RUEKJCS/SECDEF WASHINGTON DC PRIORITY

UNCLAS SANAA 000916

SIPDIS

SENSITIVE

SIPDIS

PLEASE PASS TO OPIC FOR SENIOR INVESTMENT OFFICER, MARK
SPROLES.

E.O. 12958: N/A

TAGS: [PREL](#) [EINV](#) [EPET](#) [ECON](#) [YM](#)

SUBJECT: POST SUPPORTS OPIC INVESTMENT IN YLNG

REF: A. SECSTATE 45831

[1](#)B. SANAA 843

[1](#)1. SUMMARY: In this cable, Post provides comments on the Overseas Private Investment Corporation,s (OPIC) support for the Yemen Liquefied Natural Gas (YLNG) project, as requested in Ref A. YLNG is crucial for Yemen's economy, with considerable benefits for American companies. The ROYG has generally honored contracts with foreign companies, with the possible exception of an ongoing dispute with Hunt Oil over Block 18. Post does not believe this will affect the future of YLNG, but strongly encourages an OPIC project team to evaluate the current legal and management status of Block 18 and its gas reserves. Security remains a major concern in Yemen, but Post does not anticipate specific problems that will derail YLNG. END SUMMARY.

[1](#)2. YLNG is critical to Yemen's economy, especially in the face of declining oil reserves. With expected government profit of approximately USD 1 billion per year for twenty years, YLNG is the largest available source of new revenue for the ROYG. It is also an important project for American jobs and companies, with an estimated total of USD 400 million of the initial investment paid to contractors in the United States. In addition, over fifty percent of the gas is intended for U.S. markets. (Ref B)

[1](#)3. Post recognizes the critical role played by OPIC in financing the deal, and strongly backs OPIC's support for the project. The ROYG has a strong track record in honoring contracts with U.S. and foreign investors in the oil and gas sector, and can be expected to do the same in YLNG. Considering the importance of the project to Yemen's future, the ROYG cannot afford to lose the confidence of international investors.

[1](#)4. The one significant exception to Yemen's positive history in the sector is the dispute with Hunt Oil over Block 18. Hunt contends that the ROYG violated its five-year extension agreement with Hunt, and the case is currently under arbitration in Paris. Post expects that the ROYG will respect the court's ruling, no matter what the outcome. This case is unlikely to be resolved before the OPIC board of directors makes its decision on financing YLNG, but continues to affect the project in several ways.

[1](#)5. The current operator in Block 18, the major source of gas for YLNG, is the government-owned Safir Company. Several observers have expressed doubts about Safir's competence in

this role. There is also a secondary legal dispute involving Hunt and the ROYG, in which the American company contends that the Marib Services Company -- and not Safir -- is the legal caretaker of the upstream gas facilities. Post hopes that the OPIC mission can help clarify the overall situation in Block 18, and reassure investors in the feasibility of the YLNG project.

16. The security of YLNG facilities is, and will remain, a major concern. The planned pipeline traverses some of Yemen's most remote tribal regions, which have been the target of violent attacks in the past. The ROYG is working closely with the YLNG company, however, to ensure maximum security, as it has on other major oil and gas facilities. A project of this magnitude will require constant vigilance, but post does not anticipate that security concerns will disrupt the operation of YLNG at this time.
Khoury